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# FINANCIAL MANAGEMENT

## Problems in Accounting for Navy Transactions Impair Funds Control and Financial Reporting



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The Honorable William J. Lynn  
Under Secretary of Defense (Comptroller)

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Senior Civilian Official for the Office of the Assistant Secretary of the Navy  
(Financial Management and Comptroller)

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Director, Defense Finance and Accounting Service

The Department of the Navy's inability to accurately account for its disbursements and collections is a serious, long-standing financial management problem. As we have previously reported, the Department of Defense's (DOD) continuing problems with its complex and inefficient payment processes generally do not permit a transaction to be properly recorded when it occurs, including the matching of a transaction with the related obligation—a critical funds control measure. Problem disbursements result from the difficulties in properly recording transactions, including matching disbursements with related obligations, well after the transactions have occurred.

Our previous reports on DOD's problem disbursements, listed at the end of this report, detailed long-standing concerns in this area, such as the failure to identify the root causes of DOD's disbursing problems and therefore determine which of its numerous initiatives will improve the problem areas. Our reports also provided recommendations for needed actions to begin to address these problems.

Corrective actions are important because problem disbursements can increase the risks of (1) fraudulent or erroneous payments being made without detection, (2) cumulative amounts of disbursements exceeding appropriated amounts and other legal spending limits, and (3) inaccurate and unreliable financial reporting. For example, we previously reported<sup>1</sup> that the Army's budget execution information could not be relied on to ensure that the Army complied with disbursement limits established by the Antideficiency Act. In addition, our March 1996 report<sup>2</sup> on the Navy's fiscal

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<sup>1</sup>Financial Management: Strong Leadership Needed to Improve Army's Financial Accountability (GAO/AIMD-94-12, December 22, 1993).

<sup>2</sup>CFO Act Financial Audits: Increased Attention Must Be Given to Preparing Navy's Financial Reports (GAO/AIMD-96-7, March 27, 1996).

year 1994 financial reports stated that errors in recording billions of dollars of Navy disbursements resulted in the Department of the Treasury understating by at least \$4 billion the federal government's overall budget deficit reported as of June 30, 1995.

This report focuses on the effects of one type of problem disbursement—in-transits—on the Navy's funds control and financial reporting. The Navy defines problem in-transits as disbursement transactions that accounting stations have matched to a Navy appropriation, reducing the unexpended balance of that appropriation, but have not been able to match to an obligation recorded against that appropriation within 120 days from the date of the transaction. The ability to match disbursements with corresponding obligations is a basic funds control requirement. The Defense Finance and Accounting Service (DFAS)<sup>3</sup> reported that the Navy's problem in-transit transactions totaled \$3.6 billion as of October 1997, accounting for 25 percent of the Navy's problem disbursements as of that date.

We performed this work under the Chief Financial Officers (CFO) Act<sup>4</sup> as part of our broad-based review of issues affecting the accuracy and completeness of DOD's financial information. As stated in our report and testimony on the fiscal year 1997 governmentwide financial statements,<sup>5</sup> the errors and omissions in DOD's consolidated statements were a major factor in our inability to form an opinion on the financial statements of the U.S. Government.

## Background

The issues raised in this report relate directly to weaknesses in the Navy's funds control system that result in its inability to ensure that it has not incurred obligations in excess of available budget authority. As the Supreme Court has made clear over the years, the Appropriations Clause of the U.S. Constitution, often referred to as the congressional "power of the purse," reflects a fundamental proposition that a federal agency is dependent upon the Congress for its funding. "The established rule is that

<sup>3</sup>DFAS, which provides accounting services for DOD, was established on January 15, 1991, to improve, standardize, and consolidate DOD's finance and accounting policy, systems, and operations.

<sup>4</sup>The Chief Financial Officers Act, as expanded by the Government Management and Reform Act, requires executive branch agencies and certain components to prepare annual financial statements and have them audited.

<sup>5</sup>Financial Audit: 1997 Consolidated Financial Statements of the United States Government (GAO/AIMD-98-127, March 31, 1998) and Department of Defense: Financial Audits Highlight Continuing Challenges to Correct Serious Financial Management Problems (GAO/T-AIMD/NSIAD-98-158, April 16, 1998).

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the expenditure of public funds is proper only when authorized by Congress, not that public funds may be expended unless prohibited by Congress.”<sup>6</sup> By appropriating budget authority to an agency, the Congress makes public funds available to the agency for obligation and expenditure.

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## Funds Control Requirements

The Antideficiency Act is one of a number of statutes enacted by the Congress to protect its prerogative over the public purse. It provides that an officer or employee of the United States government may not “make or authorize an expenditure or obligation exceeding an amount available in an appropriation or fund for the expenditure or obligation,” or enter into a contract or other obligation for the payment of money “before an appropriation is made.”<sup>7</sup> It further requires that the head of each executive agency prescribe a system of administrative control to restrict obligations and expenditures to amounts available.

In addition, the Federal Managers’ Financial Integrity Act requires that agencies’ controls reasonably ensure that

- obligations and costs comply with applicable law and
- revenues and expenditures applicable to agency operations are recorded and accounted for properly so that accounts and reliable financial and statistical reports may be prepared and accountability of assets may be maintained.<sup>8</sup>

Proper obligation and expenditure recording practices are essential to sound funds control and compliance with the Antideficiency Act. Obligations include amounts of legal liability incurred, for example, when contracts are awarded or orders placed, even though the agency may not receive goods or make payment until some future period of time. Expenditures include such transactions as the issuance of a check, either in paper or electronic form, or the disbursement of cash to pay an obligation incurred. To ensure sound funds control and compliance with the act, an agency’s funds control system must record obligation and expenditure transactions as they occur. An agency may not avoid the requirements of the act, including the reporting requirements discussed below, by failing to record obligations or expenditures.

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<sup>6</sup>United States v. MacCollom, 426 U.S. 317, 321 (1976).

<sup>7</sup>31 U.S.C. 1341(a)(1).

<sup>8</sup>31 U.S.C. 3512(b)(1).

Whenever an agency discovers evidence of a possible overobligation or overexpenditure, it must investigate that evidence. If the investigation shows that the appropriation, in fact, is overobligated or overexpended, the Antideficiency Act requires reporting the overobligation or overexpenditure to the President and the Congress. Office of Management and Budget (OMB) Circular A-34, Instructions on Budget Execution, which provides funds control implementation guidance, requires agencies to include in such reports the primary reason for the violation, a statement of any circumstances the agency believes to be extenuating, a statement of the adequacy of the agency's funds control system and whether the head of the agency determines a need for changes in the system, and a statement of any action taken by the head of the agency to prevent recurrence of the same type of violation.<sup>9</sup>

The act applies to expired and canceled appropriations, the types of appropriations at issue in this report, as well as current appropriations. At the end of the period of availability of a fixed-year appropriation,<sup>10</sup> the appropriation expires and for the next 5 fiscal years is available only for recording, adjusting, and liquidating obligations properly chargeable to that appropriation.<sup>11</sup> However, an agency may not charge new obligations to an expired appropriation. For example, an agency using a fiscal year appropriation entered into a contract in fiscal year 1998. In fiscal year 1999, it incurs increased costs due to changes in specifications that fall within the contract's scope of work. The agency must obligate the increased costs of this contract modification against the fiscal year 1998 expired appropriation. If an adjustment to an obligation properly chargeable to an expired appropriation exceeds the remaining unobligated balance of the expired appropriation, the agency has violated the Antideficiency Act.<sup>12</sup> The agency could also violate the act if, in liquidating an obligation, the agency were to exceed the remaining unexpended balance of the expired appropriation.

At the end of this 5-year period, the appropriation is closed and any remaining balance, whether obligated or unobligated, is canceled. What this means is that the appropriation is no longer available for any

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<sup>9</sup>OMB Circular A-34, sec. 22.6.

<sup>10</sup>A fixed-year appropriation is one that is available for a fixed period of time, either 1 or more fiscal years.

<sup>11</sup>Under 31 U.S.C. 1553(a), obligations are "properly chargeable" to an expired appropriation when they reflect "bona fide needs" of the appropriation's period of availability and meet the other requirements imposed by law, such as purpose and amount limitations. See 71 Comp. Gen. 502 (1972).

<sup>12</sup>31 U.S.C. 1553(a).

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obligation, obligation adjustment, or expenditure at all. Obligation adjustments and liquidations (expenditures) that an agency would otherwise have charged against the expired appropriation are, at this point in time, chargeable against a current appropriation available for the same purpose, but only to the extent of the lesser of 1 percent of the current appropriation or unexpended balance of the expired appropriation.<sup>13</sup> Any overobligation or overexpenditure of this amount constitutes a violation of the Antideficiency Act.

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## The Navy's Payment and Accounting Processes

The Navy's payment and accounting processes are generally separate functions carried out by separate offices in different locations. Under the Navy's processes, the accounting for a payment occurs after the payment has been made. The Navy's payments are made either by DFAS disbursing stations aligned with the Navy or other disbursing stations on behalf of the Navy, such as those aligned with the Army or the Air Force. The disbursing stations then transmit documentation supporting the payment transactions to the DFAS accounting stations<sup>14</sup> to match and record Navy payments to the corresponding obligations. Problem disbursements arise when the accounting stations are not provided the documentation that permits this matching in a timely manner.

To resolve problem in-transit disbursements, DFAS and the Navy must locate accurate, detailed accounting data for each in-transit disbursement (including, for example, a contract, travel order, or other authorizing document number, and information on the cognizant organization and program) necessary to match these transactions to the corresponding obligation recorded in the accounting system and verify that the correct appropriation was charged. According to DOD's problem disbursement policy, when DFAS or the Navy determine that a corresponding obligation was not recorded or it cannot be identified, the Navy must adjust its accounting records by directing DFAS to record an obligation to support the disbursement.

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## Results in Brief

The Navy and DOD have not established adequate funds control as required by the Antideficiency Act. Current policies and procedures permit the Navy to delay for about 5 years (1) the recording of obligations in excess

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<sup>13</sup>31 U.S.C. 1553(b).

<sup>14</sup>To record a disbursement in the accounting records, disbursement data must be sent from the disbursing station to the accounting station. The accounting station records the transaction in the accounting records and matches the payment to the corresponding obligation.

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of available budget authority, (2) the initiation of required Antideficiency Act investigations, and (3) any resulting reports of violations to the Congress and the President. During this time, the Navy's appropriation balances are unreliable, leaving DOD and the Congress without assurance that budget authority has not been exceeded.

According to Navy records, as of September 30, 1997, obligations for 9 canceled and 20 expired appropriations may have exceeded available budget authority by a total of \$290 million. Because the Navy was unable to match problem in-transit disbursements in these 29 appropriations to already recorded obligations, Navy officials concluded that to resolve these problem in-transits the Navy would need to record obligations. In accordance with DOD policy, obligations have been recorded in the nine appropriations that have canceled. At the time of our review, the Navy's records indicated that these obligations may have exceeded budget authority.

Although the Navy maintained obligations in "cuff" records (separately prepared spreadsheets used to track obligations) that it also would need to record to resolve problem in-transit disbursements in the 20 expired appropriations, these obligations were not recorded in the Navy's accounting system, in accordance with DOD policy. If these obligations had been recorded, the obligation records for the 20 expired appropriations would have shown that these appropriations also may have obligations that exceed available budget authority.

An agency may not avoid the requirements of the Antideficiency Act, including its reporting requirements, by failing to record obligations or to investigate potential violations. Navy officials stated that an investigation of these appropriations would show that they, in fact, are not overobligated. At the time of our review, the Navy had not initiated an Antideficiency Act investigation of any of the 29 appropriations, although DOD policy requires investigations of the 9 canceled appropriations with recorded obligations in excess of available budget authority. The Navy cannot rely on the possibility that over the course of time, as a result of ordinary business activity, these potential overobligations will be resolved.

In addition to the lack of control over funds, these problems have a major effect on the accuracy and reliability of the Navy's financial reporting, including its annual financial statements required under the CFO Act. For example, these unrecorded transactions particularly affect the Statement of Net Cost and the Statement of Budgetary Resources. Until transactions



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are recorded accurately and in a timely manner, and reflected in these financial statements, the Navy and DOD will remain unable to achieve the goal of producing reliable financial statements.

In written comments on a draft of this report, DOD indicated that it recognized and concurred with the intent of our recommendations. However, DOD also stated that the Navy's cuff records are unreliable and should not be used to identify potential overobligations. DOD stated further that the Navy has advised the Under Secretary of Defense (Comptroller) that even if these amounts were recorded, a number of the accounts addressed in our report still would show a positive balance when other transactions are considered. DOD suggests, therefore, that the Navy first perform a further review of its cuff records, as well as transactions recorded in its official records.

We disagree with DOD's assertion that the cuff records cannot be used to identify possible overobligations, which may indicate Antideficiency Act violations. During our audit, DFAS and Navy officials acknowledged that after an extensive, multiyear effort, they had completed all research of the in-transit disbursement transactions represented by the obligations in the Navy's cuff records. However, they were unable to match these transactions to an existing obligation. The only reason that the Navy recorded these amounts in cuff records rather than in its official accounting records is that DOD policy permits delayed recording of the amounts in the official accounting records where such recording would show the related appropriations to be overobligated. The Navy's cuff records, therefore, provide affirmative evidence of the obligations that must be recorded in the Navy's accounting system to properly match in-transit disbursements that have already occurred.

Finally, we agree, and recommended in our report, that the Navy should investigate the account balance of any potentially overobligated appropriations. As we also recommended in our report, the Navy should report any overobligations found in such a review to the Congress and the President consistent with the Antideficiency Act and guidance in OMB Circular A-34.

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## Objective, Scope, and Methodology

The objective of this review was to assess the funds control and financial reporting implications of the Navy's long-standing inability to record obligations and expenditures to properly resolve in-transit transactions. To complete this work, we



- reviewed DOD funds control regulations<sup>15</sup> and Navy funds control policies and procedures,<sup>16</sup>
- reviewed DOD Comptroller policy for researching and correcting problem disbursements, including in-transit transactions, issued between June 1995 and December 1996.<sup>17</sup> To obtain an understanding of the December 1996 policy revision, which extended the time frame for recording overobligations, we reviewed Navy's December 4, 1996, briefing document to the DOD Comptroller, which identified potential overobligations under the then existing problem disbursement policy. We discussed with DOD, DFAS, and Navy officials limitations on the Navy's ability to research and correct problem in-transits, which resulted in the request for the policy change, and
- reviewed Navy and DFAS records on disbursements and collections not yet recorded in the Navy's accounting system, including in-transit transactions recorded in DFAS' problem disbursement database, and the Navy's cuff records—separately prepared spreadsheets that are not reflected in the Navy's accounting system. Navy's cuff records identify the amount of obligations that the Navy would need to record to resolve problem disbursements and provide evidence of potential overobligations. We also reviewed the Navy's SF-133, Reports on Budget Execution, and its FMS-2108, Year End Closing Statement, on appropriation balances. We discussed this information with Navy and DFAS officials, respectively.

The data in this report are based on Navy and DFAS records. We did not independently verify or audit the accuracy of these data. We performed our work from March 1997 to June 1998 in accordance with generally accepted government auditing standards at DFAS Cleveland and operating locations<sup>18</sup> in Charleston, South Carolina; Norfolk, Virginia; San Diego, California; and the Navy's Financial Management Office in Washington, D.C.

We requested written comments on a draft of this report from the Under Secretary of Defense (Comptroller). These comments are presented and evaluated in the "Agency Comments and Our Evaluation" section and are reprinted in appendix III.

<sup>15</sup>DOD Financial Management Regulation, Volume 14.

<sup>16</sup>Navy Comptroller Manual, Volume 3, Chapter 2.

<sup>17</sup>This policy guidance has been incorporated in DOD Financial Management Regulation, Volume 3, Chapter 11.

<sup>18</sup>Operating locations, also known as OpLocs, refers to DFAS accounting and disbursing stations.

## Funds Control Policies and Procedures Do Not Ensure Accurate Information for Oversight and Financial Reporting

The Navy's funds control policies and procedures do not ensure that the Navy can match payments to corresponding obligations before or at the time a payment is made. This has resulted in problem disbursements and the need for the Navy, after a payment has been made, to match the disbursement to an obligation or to record an obligation to cover the disbursement.

In May 1997 testimony,<sup>19</sup> the Under Secretary of Defense (Comptroller) stated that DOD "has confidence in its existing budgetary accounting systems to control and account for funds provided to DOD through the Congressional appropriation process. Those systems successfully support the budgetary process, generally have adequate funds control processes, and satisfy requirements for appropriation balances and availability." However, our findings in this report illustrate that significant breakdowns in funds control have resulted in the Navy's problems in promptly resolving its in-transit transactions and maintaining accurate and reliable appropriation balances. In addition, these problems have a major effect on the accuracy and reliability of the Navy's financial reporting, including its annual financial statements required under the CFO Act.

## Funds Control Implications

We found evidence that as of September 30, 1997, the Navy may have overobligated 29 canceled and expired appropriations totaling \$290 million. The Navy's obligation records for nine canceled appropriations, as of September 30, 1997, show that these appropriations may be overobligated. In addition, cuff records (separately prepared spreadsheets that are not reflected in the Navy's accounting system) evidence possible overobligations in 20 expired appropriations. The potential overobligations shown in the records of the 9 canceled appropriations and the potential overobligations identified in the cuff records for the 20 expired appropriations reflect the results of the Navy's efforts to research and resolve problem in-transit disbursements.

The DOD Comptroller has issued policy guidance on researching and resolving problem disbursement transactions and investigating potential overobligations that may result.<sup>20</sup> The Navy defines problem in-transits as disbursements that DFAS accounting stations have matched to a Navy appropriation, reducing the appropriation's unexpended balance, but have not been able to match to a recorded obligation of that appropriation

<sup>19</sup>Statement of the Honorable John J. Hamre, Under Secretary of Defense (Comptroller), Department of Defense, Before the Senate Committee on Governmental Affairs, May 1, 1997.

<sup>20</sup>DOD Financial Management Regulation, Volume 3, Chapter 11.

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within 120 days from the date of the transaction. The DOD Comptroller's initial June 1995 policy required DFAS to (1) research in-transit disbursements within 180 days of their designation as a problem disbursement (allowing a total of 300 days to match disbursements to obligations) and (2) if unable to match a problem disbursement to an obligation within 180 days, record an obligation or an obligation adjustment (an increase or decrease to an existing obligation). The policy also set minimum research requirements and established criteria for discontinuing research when there is no reasonable expectation that supporting documentation can be located.

According to DOD's funds control regulations,<sup>21</sup> if evidence of a potential Antideficiency Act violation is found, an investigation is to be initiated. The regulations state that this investigation consists of a preliminary review to gather basic facts about a potential violation to determine whether a formal investigation is warranted. The preliminary review would include, for example, checking for duplicate transactions. If the preliminary review determines that there is a potential violation of the act, a formal investigation is to be initiated. The formal investigation is to encompass a review of all activity within the appropriation to determine if a violation of the act has, in fact, occurred.

DOD's problem disbursement policy was revised on at least two occasions, permitting the Navy to delay recording and investigating potential overobligations that may result in Antideficiency Act violations. The October 1996 policy revision directed that (1) obligations resulting from actions to resolve problem disbursements be recorded in an appropriation only up to the amount of that appropriation's unobligated balance, (2) if, during the 5-year expired phase, obligational authority becomes available, record obligations for problem disbursements before recording any program obligational adjustments, and (3) record any remaining obligations when the appropriation cancels—5 years after the appropriation expires. Thus, this policy provided that recording obligations for problem disbursements would take priority over recording program obligational adjustments. This policy also suspended the requirement to conduct investigations of potential Antideficiency Act violations caused by recording problem disbursements until 6 months after the appropriation canceled.

Under DOD's funds control regulations, obligations are to be recorded at the time they occur and Antideficiency Act investigations are to be

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<sup>21</sup>DOD Financial Management Regulation, Volume 14.

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initiated when there is evidence that a violation may have occurred. However, under the October 1996 policy revision, the Navy was not required to record obligations needed to cover problem disbursements on an ongoing and current basis if recording the obligation would cause the appropriation to be potentially overobligated. This policy runs counter to the funds control objectives of the Antideficiency Act.

In response to a briefing from Navy financial managers, the DOD Comptroller revised the problem disbursement policy again on December 16, 1996, to avoid the negative impact on appropriations that affect the Navy's readiness resulting from recording obligations to resolve problem in-transit disbursements. For example, the December policy change allowed program obligational adjustments to be recorded to appropriations, eliminating the requirement to record, on a priority basis, obligations to resolve problem in-transit disbursements. Under this policy revision, the Navy is not required to establish obligations to resolve problem in-transits that cannot be matched to an existing obligation in a current or expired appropriation until June 30 of the fiscal year in which the cited appropriation account is scheduled to cancel—in other words, about 90 days short of 5 years after the appropriation has expired. This can amount to a total of about 8 years after the original disbursement transaction occurred in those cases where an appropriation covered 3 fiscal years. Of the 29 potentially overobligated appropriations, 8 appropriations covered at least 3 fiscal years.

In the December 1996 briefing, the Navy requested that the DOD Comptroller revise the obligation requirement for in-transits because the Navy's ability to resolve them was limited. The briefing document noted the number of overobligated appropriations that the Navy would have to investigate and report if it complied with the 180-day policy for recording obligations to resolve problem in-transit disbursements.

We identified evidence of overobligations in the nine canceled appropriations through discussions with Navy financial management officials on the Navy's implementation of the DOD Comptroller's problem disbursement policy. We reviewed Navy journal vouchers (documentation of transactions) used to record these obligations. The Navy's obligation records for these nine canceled appropriations, as of September 30, 1997, show that the appropriations may have obligations in excess of available budget authority. Appendix I contains a list of the nine canceled appropriations and the amounts by which the Navy may have obligations in excess of available budget authority.

We also identified evidence of overobligations in the 20 expired appropriations through discussions with Navy financial management officials on the reasons why the DOD Comptroller policy was revised to extend the period for recording obligations needed to resolve problem in-transits. Navy officials showed us cuff records identifying obligations that the Navy's research indicated are necessary to resolve problem in-transit disbursements in these 20 appropriations. The Navy uses these cuff records to track obligations that it concludes are necessary to resolve problem disbursements. The data on these spreadsheets are not reflected in the Navy's accounting system.

Navy officials told us that they had not recorded these obligations against the appropriations because they were not required to do so by the DOD Comptroller's December 16, 1996, policy for resolving problem disbursements. However, if the obligations shown in the cuff records were recorded in the Navy's accounting system, the obligation records for these 20 expired appropriations, like the records for the 9 canceled appropriations, would show that these appropriations also may have obligations in excess of available budget authority. Appendix II contains a list of the 20 expired appropriations and the amounts by which the cuff records show that these appropriation accounts may have obligations in excess of available budget authority as of September 30, 1997. As stated earlier, DOD's current policy, as revised on December 16, 1996, does not require the Navy to record these obligations in its accounting system until 3 months before the appropriation is scheduled to cancel.

Navy officials also stated that while available evidence as of September 30, 1997, may show that the 29 appropriations appear overobligated, they do not believe them to actually be overobligated. They indicated that an Antideficiency Act investigation of each appropriation could result in identifying (1) other disbursements recorded incorrectly against the appropriation, (2) obligations that are no longer valid and can be deobligated,<sup>22</sup> or (3) other accounting errors that would, when corrected, reduce recorded obligations, leaving funds available to permit recording of these disbursement transactions without incurring an overobligation. The officials also stated that "historical trends" suggest that over a period of time, as a result of ordinary business operations, the Navy will be able to deobligate previously recorded obligations.

<sup>22</sup>Under 31 U.S.C. 1501 and OMB Circular A-34, agencies are required to ensure that obligations are not over- or understated. Agencies are required to make appropriate upward and downward adjustments to obligations, deobligating, in whole or in part, obligations that are not likely to require payment.

Navy officials told us that they had completed all research of the problem in-transit disbursements that resulted in the obligations recorded in the 9 canceled appropriations and identified in the cuff records for the 20 expired appropriations. As of the completion of our review, the Navy had not initiated an Antideficiency Act investigation of any of these 29 appropriations. An agency may not avoid the requirements of the act, including its reporting requirements, by failing to record obligations or to investigate potential violations. Also, the Navy cannot rely on the possibility that over the course of time, as a result of ordinary business activity, these potential overobligations will be resolved. Moreover, the Navy has no assurance on an ongoing basis that it has sufficient budget authority to cover adjustments to other obligations incurred during the normal course of business and properly chargeable to these appropriations, as discussed previously.

Further, an agency may not establish a policy to avoid proper funds control and the consequences of the Antideficiency Act. The DOD Comptroller's current policy, permitting the Navy to delay recording obligations for problem in-transits for 5 years or more, runs counter to the funds control objectives of the Antideficiency Act. It allows the Navy to ignore evidence of potential overobligations, and delay for over 5 years required Antideficiency Act investigations and any resulting reports to the Congress and the President, limiting their ability to maintain oversight. In addition, DOD's current problem disbursement policy,<sup>23</sup> which states that an investigation be initiated for potential Antideficiency Act violations that have not been resolved within 6 months after the appropriation cancels, would apply to the nine canceled accounts, although DOD did not ensure that the policy was followed.

## Financial Reporting Implications

The Navy's ongoing problems in properly and promptly recording its transactions also affect the reliability of its financial reporting, including its annual financial statements. For example, these unrecorded transactions particularly affect the Statement of Net Cost and the Statement of Budgetary Resources. Until transactions are recorded accurately and in a timely manner and reflected in these financial statements, the Navy and DOD will remain unable to achieve the goal of producing reliable financial statements.

The Statement of Net Cost is intended to provide information on an agency's cost of operations and would generally be derived from cost

<sup>23</sup>DOD Financial Management Regulation, Volume 3, Chapter 11.

accounting information. However, because the Navy and DOD lack appropriate cost accounting systems, they use obligation and expenditure data to calculate costs. The reliability of this information is impaired not only because obligation data do not represent actual cost, but also because the Navy's obligation data are unreliable, as evidenced by the delay in recording in-transit transactions and the potential overobligations discussed in this report. This factor further limits the reliability of the Statement of Net Cost.

The Statement of Budgetary Resources is required for federal agencies beginning with fiscal year 1998. The purpose of the Statement of Budgetary Resources is to have audited budget information, which is reconciled to the Statement of Net Cost. This statement is intended to provide information on the type of resources used to fund the operation of the agency, as well as the year-end status of those funds. The required supplementary information to support this statement includes information by appropriation on obligations and expenditures for the period. Therefore, inaccurate and incomplete information on expenditures and obligations directly affects the reliability of this statement.

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## Conclusions

Until the Navy corrects the fundamental deficiencies in its system of funds control to allow for accurate recording of its transactions on an ongoing and current basis, its ability to produce accurate information on the status of its obligations and expenditures will continue to be severely compromised. As evidenced by the 29 potentially overobligated expired and canceled appropriations discussed in this report, the Navy's failure to adequately and timely account for disbursements against recorded obligations impairs its ability to ensure, in accordance with the Antideficiency Act's funds control requirements, that on an ongoing basis, obligations and disbursements do not exceed the budget authority made available by the Congress.

The DOD Comptroller's current policy, permitting the Navy to delay recording obligations for problem in-transits for 5 years or longer, runs counter to the funds control objectives of the Antideficiency Act. It allows the Navy to ignore evidence of potential overobligations, and delay for almost 5 years required Antideficiency Act investigations and any resulting reports to the Congress and the President.

DOD may not avoid the requirements of the act by failing to record obligations or expenditures and to investigate evidence of overobligations



or overexpenditures. To do so affects not only DOD's ability to maintain funds control, but also limits the effectiveness of congressional oversight. Incomplete and inaccurate information on the Navy's transactions also affects the reliability of its financial information used for financial reporting, including its annual financial statements, a mechanism for oversight by the Congress and the public.

## Recommendations

We recommend that the DOD Comptroller revise the problem disbursement policies and procedures to ensure that the Navy's funds control system maintains, on an ongoing and current basis, accurate and reliable unobligated and unexpended balances for the Navy's expired and canceled appropriations consistent with the Antideficiency Act and requirements for accurate and timely financial reporting. The DOD Comptroller should also monitor compliance with the revised policies and procedures.

We also recommend that the Navy's Assistant Secretary (Financial Management and Comptroller) in concert with DFAS

- record obligations in the Navy's official accounting and funds control records for the 20 expired appropriations identified in the Navy's cuff records,
- immediately investigate any of the 9 canceled appropriations and the 20 expired appropriations that are potentially overobligated, and
- report any overobligations to the Congress and the President pursuant to the Antideficiency Act and implementing guidance in OMB Circular A-34.

## Agency Comments and Our Evaluation

In written comments on a draft of this report, DOD indicated that it recognized and concurred with the intent of our recommendations. DOD stated that it has implemented various policies and procedures intended to ensure that the funds control systems of each of the DOD components maintain accurate unobligated and unexpended balances and comply with the Antideficiency Act. DOD also stated that we did not validate and should not have relied on the Navy's cuff records to identify potential overobligations because (1) the Navy advised the Under Secretary of Defense (Comptroller) that its cuff records may not accurately reflect amounts that should be properly recorded in the applicable Navy accounts and (2) even if the obligations were recorded, a number of the accounts addressed in our report would show a positive balance, and it would be premature to conduct Antideficiency Act investigations based on these cuff records.

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We disagree with DOD's and the Navy's assertions. DOD's problem disbursement policy allows DOD agencies, including the Navy, to undermine the funds control objectives of the Antideficiency Act and OMB guidance. As stated in our report, DOD's policy inappropriately allows the Navy to ignore evidence of potential overobligations for almost 5 years, and to maintain inaccurate and unreliable appropriation balances during that period of time.

Further, DOD's comments ignore the basis for our finding that obligations recorded in the Navy's cuff records should be recorded in the Navy's official accounting records. The level and quality of research supporting amounts in the cuff records is no different from the research supporting amounts that the Navy has already recorded in the official obligation records to resolve other problem in-transit disbursement transactions. The obligations recorded in the Navy's cuff records are a direct result of extensive, multiyear DFAS and Navy efforts to research and resolve the Navy's problem in-transit disbursement transactions. When this research fails to identify a corresponding obligation, the Navy will record an obligation in its official records, but only up to the amount of the appropriations' remaining unobligated budget authority. According to Navy officials, an amount is recorded in cuff records when official accounting records show insufficient unobligated budget authority to cover the obligation. The only reason that the Navy records these amounts in cuff records rather than in its official accounting records is that DOD policy permits delayed recording of the amounts in the official accounting records where such recording would show the related appropriations to be overobligated. Because the same level and quality of research supports obligations that the Navy records in both its official records and the cuff records, the cuff records represent affirmative evidence of possible overobligations. The Navy, by its own admission, would have recorded these amounts in its official records had there been sufficient unobligated budget authority to cover these obligations. As recommended in our report, the Navy should record these amounts and, without further delay, begin investigations of this evidence.

Although DOD and the Navy now assert that the cuff records are unreliable, both have used the cuff records as evidence of possible overobligations. As discussed in our report, the Navy offered, and the DOD Comptroller accepted, the Navy's cuff records as evidence of overobligations in 29 Navy appropriations if the Navy were to record such obligations as required by DOD's previous problem disbursement policy. As a result, the DOD Comptroller revised this policy to extend the time frame for recording

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such obligations for nearly 5 years. Moreover, pursuant to the revised policy, the Navy used these same records as sufficient evidence of the amount of obligations they needed to record in its official records for the nine canceled appropriation accounts listed in appendix I to this report.

DOD also suggested that the Navy's cuff records should be reviewed further. DOD stated that preliminary reviews conducted by the Navy indicate that the cuff records may not accurately reflect the amount of obligations that should be recorded in some of the appropriation accounts in question. However, DOD did not provide documentation to support this assertion. We are concerned that DOD's comments represent a further attempt to avoid the requirements of the Antideficiency Act and, at the very least, underscore DOD's serious difficulties in resolving its problem disbursements and maintaining accurate, reliable accounting records. Moreover, unless DOD establishes accurate and current appropriation balances by recording transactions when they occur, it will be difficult, if not impossible, for DOD to effectively monitor and report on the use of resources provided by the Congress.

DOD also stated, but offered no documentation, that even if the Navy recorded cuff record amounts in its official records, a number of the appropriations would show a positive balance. Although DOD stated that it would be premature, for this reason, to conduct an Antideficiency Act investigation, it suggested a review of the transactions in the cuff records and those in the Navy's official records. We agree that the Navy should investigate the account balance of any potentially overobligated appropriations, as recommended in our report. This sort of investigation could result in identifying (1) other disbursements recorded incorrectly against the appropriation, (2) obligations that are no longer valid and can be deobligated, or (3) other accounting errors that would, when corrected, reduce recorded obligations, leaving funds available to permit recording of these disbursement transactions without incurring an overobligation. As we recommended, the Navy should report any overobligations found as a result of such an investigation to the Congress and the President pursuant to the Antideficiency Act and implementing guidance in OMB Circular A-34.

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This report contains recommendations to the Under Secretary of Defense (Comptroller) and the Assistant Secretary of the Navy (Financial Management and Comptroller). Within 60 days of the date of this letter, we would appreciate receiving written statements on actions taken to address these recommendations.

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We are sending copies of this letter to the Chairmen and Ranking Minority Members of the Senate Committee on Armed Services, the House Committee on National Security, the Senate Committee on Governmental Affairs, the House Committee on Government Reform and Oversight, the House and Senate Committees on Appropriations and the Director of the Office of Management of Budget. We are also sending copies to the Secretary of Defense and the Secretary of the Navy. Copies will also be made available to others upon request.

Please contact me at (202) 512-9095 if you or your staffs have any questions on this report. Major contributors to this report are listed in appendix IV.

A handwritten signature in black ink, reading "Lisa G. Jacobson". The signature is written in a cursive style with a large, stylized "L" and "J".

Lisa G. Jacobson  
Director, Defense Audits



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## Abbreviations

CFO	chief financial officer
DFAS	Defense Finance and Accounting Service
DOD	Department of Defense
OMB	Office of Management and Budget



# Canceled Appropriations for Which the Navy's Accounting System Indicated Potential Overobligations as of September 30, 1997

Dollars in thousands

Appropriation account	Account number	Fiscal year	Potential <sup>a</sup> overobligation
<b>Appropriations affected by other problem disbursements and in-transits:</b>			
Aircraft Procurement, Navy	1506	1987-1989	\$10,500
Weapons Procurement, Navy	1507	1987-1989	34,700
Other Procurement, Navy	1810	1987-1989	57,800
Other Procurement, Navy	1810	1989	100
Coastal Defense Augmentation	0380	1985-1989	5,600
Research, Development, Test & Evaluation, Navy	1319	M <sup>b</sup>	32,700
<b>Subtotal</b>			<b>\$141,400</b>
<b>Appropriations affected by in-transits only:</b>			
Operation and Maintenance, Marine Corps Reserve	1107	1991	\$20
Operation and Maintenance, Marines	1106	1990	4,000
Military Personnel, Navy	1453	1991	20
<b>Subtotal</b>			<b>\$4,040</b>
<b>Total</b>			<b>\$145,440</b>

Note: These appropriation accounts did not have sufficient unobligated balances to obligate the full amount of in-transits after recording obligations to resolve other problem disbursements.

<sup>a</sup>These amounts relate to other problem disbursements as well as in-transits.

<sup>b</sup>An M account was a successor account into which unobligated balances were transferred, or merged, from an expired account at the end of the second full fiscal year following expiration. Under the National Defense Authorization Act of 1991, existing M accounts were phased out.

# Expired Appropriations Which the Navy's Cuff Records Indicated May Be Overobligated as of September 30, 1997

Dollars in thousands

Appropriation account	Account number	Fiscal year	Potential <sup>a</sup> overobligation
<b>Appropriations affected by other problem disbursements and in-transits:</b>			
Reserve Personnel, Navy	1405	1997	\$150
Operation and Maintenance, Marine Corps Reserve	1107	1993	197
Operation and Maintenance, Marine Corps Reserve	1107	1996	3
Procurement of Ammunition, Navy and Marine Corps	1508	1995-1997	4
Shipbuilding & Conversion, Navy	1611	X <sup>b</sup>	176
Shipbuilding & Conversion, Navy	1611	1995-1996	5
Other Procurement, Navy	1810	1994-1996	14,480
Research, Development, Test, and Evaluation, Navy	1319	1995-1996	258
<b>Subtotal</b>			<b>\$15,273</b>
<b>Appropriations affected by in-transits only:</b>			
Reserve Personnel, Marine Corps	1108	1995	\$3
Operation and Maintenance, Navy	1804	1994	38,161
Operation and Maintenance, Navy	1804	1995	17,064
Operation and Maintenance, Navy	1804	1996	50,729
Operation and Maintenance, Marine Corps	1106	1997	55
Operation and Maintenance, Marine Corps Reserve	1107	1994	70
Aircraft Procurement, Navy	1506	1995-1997	2,567
Shipbuilding and Conversion, Navy	1611	1986-1990	1,495
Other Procurement, Navy	1810	1993-1995	6,025
Procurement, Marine Corps	1109	1992-1994	10,054
Research, Development, Test, and Evaluation, Navy	1319	1996-1997	2,564
Military Construction, Naval Reserve	1235	1995-1999	144
<b>Subtotal</b>			<b>\$128,931</b>
<b>Total</b>			<b>\$144,204</b>

<sup>a</sup>Includes amounts for in-transits only.<sup>b</sup>The "X" denotes a no-year appropriation, for which funds are available until expended without regard to fiscal year. The Navy included this appropriation in its cuff records of expired appropriations.

# Comments From the Department of Defense

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



COMPTROLLER

UNDER SECRETARY OF DEFENSE  
1100 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1100



NOV 24 1998

Mr. Gene L. Dodaro  
Assistant Comptroller General  
United States General Accounting Office  
Washington, D.C. 20548

Dear Mr. Dodaro:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) Draft Report, "FINANCIAL MANAGEMENT: Problems in Accounting for Navy Transactions Impair Funds Control and Financial Reporting," dated October 21, 1998 (GAO Code 919052/OSD Case 1642).

The Department previously has acknowledged that, as a result of outdated finance and accounting systems and antiquated business practices, it has difficulty in matching specific disbursements with applicable obligations in as timely a manner as desired. As a result, at any given time, a percentage of the Department's disbursements temporarily may not yet be matched to their corresponding obligation by the Department's automated systems. When that happens, the Department must manually research and resolve such amounts.

Significant progress has been made in recent years. For example, the amount of so-called problem disbursements--disbursements that have not been matched to obligations within 180 days after the date of the disbursement--have been reduced by over 50 percent since October 1994. Similarly, the net amount of in-transit disbursements has been reduced in excess of 25 percent during the same period. While significant improvements have been made, additional efforts are required to enable the Department to reduce, and ultimately eliminate, such amounts. The Department has several initiatives and reforms underway to achieve that objective.

In the interim, the Department requires the DoD Components to research and resolve such amounts, and to obligate amounts for disbursements that are not matched to their corresponding obligation within a specified time. Such an obligation is required even though, conceptually, it may duplicate an obligation previously recorded for the purchase of the applicable item. Additionally, DoD policy requires that commitment and obligation transactions be reviewed and confirmed as to their accuracy, completeness and timeliness at least three times a year.

While we recognize the intent of the recommendations made in the draft report, we are concerned that certain statements in the draft report appear to be inconsistent with past GAO reports and contrary to regulatory guidance. Specifically, GAO's reliance on "cuff records" to identify potential overobligations appears to be contrary to principles applied in audits of the Department's financial statements. Financial statement audits have portrayed "cuff records" as unofficial records. In financial statement audits, comparable worksheets have been rejected, by both the GAO and Department's internal auditors, as being insufficient documentation to justify

See comment 1.

See comment 2.

See comment 3.

See comment 4.

See comment 5.

Appendix III  
Comments From the Department of Defense

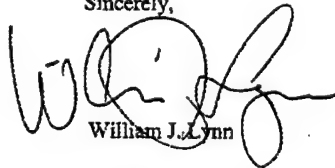
entries into the Department's official accounting systems, and for supporting amounts reported in the Department's financial statements. In view of this and the fact that the GAO acknowledges that it did not verify the accuracy of the "cuff records," it is difficult to understand how such worksheets could be considered sufficient evidence to warrant entries into the Navy's official accounting records. At best, the "cuff records" are an indication that additional review may be warranted.

See comment 6.

With respect to reviews of the "cuff records," ongoing review by the Navy indicates that, in a number of instances, amounts included in the "cuff records" reviewed by the GAO may not accurately reflect amounts that should be properly recorded in applicable Navy accounts. The Navy advises that even if the amounts were recorded, a number of the accounts addressed in the GAO report still would show a positive balance when other transactions are considered. In view of this, at this point in time, investigations of potential violations of the Antideficiency Act would appear to be premature. Before initiating such investigations, it would appear to be prudent to conduct a more thorough review of the transactions in the "cuff records" and the transactions recorded in the official records of the applicable accounts in question, as well as undertake a comparison of the two types of records.

The Department appreciates the opportunity to comment on this draft report. Specific comments on each of the recommendations are enclosed.

Sincerely,



William J. Lynn

Enclosure

**Appendix III**  
**Comments From the Department of Defense**

General Accounting Office Draft Report  
"FINANCIAL MANAGEMENT: Problems in  
Accounting for Navy Transactions Impair Funds  
Control and Financial Reporting"  
Dated October 21, 1998  
(GAO Code 919052/OSD Case 1642)

**DEPARTMENT OF DEFENSE COMMENTS  
TO THE GAO RECOMMENDATIONS**

**RECOMMENDATION 1:** The General Accounting Office (GAO) recommended that the Department of Defense (DoD) Comptroller revise the problem disbursement policies and procedures to ensure that the Navy's funds control system maintains, on an ongoing and current basis, accurate and reliable unobligated and unexpended balances for the Navy's expired and canceled appropriations consistent with the Antideficiency Act and requirements for accurate and timely financial reporting. The GAO further recommended that the DoD Comptroller also monitor compliance with the revised policies and procedures. (p. 25/Draft Report)

**DoD RESPONSE:** Concur with intent. The DoD has implemented various policies and procedures intended to ensure that the funds control systems of each of the DoD Components maintain accurate unobligated and unexpended balances. Additionally, the Department's policies are designed to better ensure compliance with Antideficiency Act requirements and to produce accurate financial reports. One of these policies is the requirement for the DoD Components, at least three times a year, to review, and confirm as to the accuracy and completeness, the validity of commitment and obligation transactions. Another policy is to require that the DoD Components obligate amounts for disbursements, including in-transit disbursements, that are not matched to a specific obligation within a stated period of time. The Department will review these policies to assess whether the policies are accomplishing their intended purpose.

**RECOMMENDATION 2:** The GAO recommended that the Navy's Assistant Secretary for Financial Management (Comptroller) in concert with DFAS:

- record obligations in the Navy's official accounting and funds control records for the 20 expired appropriations identified in the Navy's "cuff" records,
- immediately investigate any of the 9 canceled appropriations and the 20 expired appropriations that are potentially overobligated, and
- report any overobligations to the Congress and the President pursuant to the Antideficiency Act and implementing guidance in OMB Circular A-34. (p. 25/Draft Report)

See comment 7.

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**Appendix III**  
**Comments From the Department of Defense**

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See comment 8.

**DoD RESPONSE:** Concur with intent. To the extent appropriate, additional obligations will be recorded for the 20 expired appropriations identified in the Navy's "cuff records" if a review of available information indicates sufficient documentary evidence exists for recording such obligations. However, since the GAO did not validate the accuracy of the information contained in the "cuff records," it may be premature to commence an investigation of a potential violation of the Antideficiency Act for the accounts involved. Preliminary reviews conducted by the Navy indicate that the "cuff records" appear to overstate the amount of obligations that should be charged to some of the accounts in question. Accordingly, it would appear to be more prudent to conduct a more thorough review and comparison of the "cuff records" with the official accounting records. This is needed to determine the extent to which the "cuff records" or the official records more accurately reflect amounts that should be recorded. Subsequently, if the official records indicate a potential Antideficiency Act violation did occur, the Navy will conduct a formal investigation in accordance with Volume 14, "Administrative Control of Funds and Antideficiency Act Violations," of the Department of Defense Financial Management Regulation.

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The following are GAO's comments on the Department of Defense's letter dated November 24, 1998.

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## GAO Comments

1. DOD's problems resulting from its outdated finance and accounting systems are long-standing. However, DOD's inability to match disbursement transactions to obligations at the time a payment is made is not a temporary situation as DOD's comments have indicated. As discussed in our report, some of the unmatched transactions represented by the Navy's cuff records are at least 8 years old.

2. We recognize that DOD has made progress in addressing problem disbursements. However, as stated in our May 1997 report,<sup>1</sup> DOD cannot ensure accurate and consistent reporting. For example, our testing of problem disbursement amounts reported by DOD as of May 31, 1996, showed that the \$18 billion reported by DOD was understated by at least \$25 billion. We reported that DOD significantly understates the magnitude of its problem disbursements by (1) netting positive and negative amounts that result from disbursements, collections, reimbursements, or adjustments and (2) excluding certain transactions. DOD continues to understate the magnitude of its problem disbursements by reporting net amounts. For example, DOD's April 1998 testimony on financial management,<sup>2</sup> indicated that as of January 31, 1998, DOD's problem disbursements totaled \$14.3 billion, including in-transits, when, in fact, the absolute value of DOD's problem disbursements would have totaled \$22.6 billion, if positive and negative amounts had not been used to offset one another.

3. DOD stated that it requires its component agencies to research and resolve problem disbursements and to record obligations for those disbursements that are not matched to a corresponding obligation within specified time frames. A fundamental premise of funds control accounting is that an agency records its obligations at the time incurred and disburses funds based on an obligation to pay. The 5-year time frame allowed by DOD's policy for recording obligations to resolve problem in-transit disbursements undermines fund control accounting.

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<sup>1</sup>Financial Management: Improved Reporting Needed for DOD Problem Disbursements (GAO/AIMD-97-59, May 1, 1997).

<sup>2</sup>Statement of Nelson Toye, Deputy Chief Financial Officer, Before the Committee on Government Reform and Oversight, Subcommittee on Government Management, Information and Technology, April 16, 1998.



DOD stated that its policy requires review and confirmation of the accuracy, completeness, and timeliness of commitment and obligation transactions at least three times a year. According to DOD officials, DOD's requirement for a triannual review of obligations was implemented about 3 years ago. These reviews do not retroactively cover prior obligations, and they do not cover the obligations recorded in the Navy's cuff records. Regardless, the Navy's failure to record all known obligations impairs the effectiveness of DOD's triannual review of obligations as a funds control mechanism.

4. The statements and recommendations in our report are consistent with our past position on potential Antideficiency Act violations. When our audits have identified potential overobligations or overexpenditures, we have recommended that DOD investigate the transactions and report any resulting overobligations and/or overexpenditures to the President and the Congress pursuant to the act.<sup>3</sup>

5. We appropriately consider the obligations in the Navy's cuff records to be affirmative evidence of potential overobligations. The particular Navy cuff records that we discuss in this report represent the Department of the Navy's determination, after an extensive, multiyear research effort, of the obligations that need to be recorded in the Navy's accounting system to match in-transit disbursement transactions that have already occurred. As discussed in this report, DOD and Navy officials told us that all research to identify existing obligations for the transactions represented by the cuff records has been performed. The only reason that these obligations have not been recorded in the Navy's accounting system is that DOD policy permits the Navy to delay such recording for almost 5 years if recording the amounts in official records would indicate potential overobligations that would need to be investigated pursuant to OMB's funds control guidance and the Antideficiency Act.

Although DOD and the Navy now assert that the cuff records are unreliable, both have used the cuff records as evidence of possible overobligations. As discussed in our report, the Navy and the DOD Comptroller accepted the Navy's cuff records as evidence of overobligations in 29 Navy appropriations if the Navy were to record such obligations as required by DOD's previous problem disbursement policy. As a result, the DOD Comptroller revised this policy to extend the time frame for recording

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<sup>3</sup>TOPAZ II Space Nuclear Power Program: Management, Funding, and Contracting Problems (GAO/OSI-98-3R, December 1, 1997), Air Force Appropriations: Funding Practices at the Ballistic Missile Organization (GAO/NSIAD-93-47, July 16, 1993), and Financial Management: Agencies' Actions to Eliminate "M" Accounts and Merged Surplus Authority (GAO/AFMD-93-7, April 2, 1993).

such obligations for nearly 5 years. Moreover, pursuant to the revised policy, Navy officials used these same records as sufficient evidence of the amount of obligations they needed to record in the Navy's official records for the nine canceled appropriation accounts listed in appendix I of this report.

6. DOD stated, but offered no documentary support, that even if the Navy recorded cuff record amounts in its official records, a number of the appropriations would show a positive balance. Although DOD asserted that it would be premature, for this reason, to conduct an Antideficiency Act investigation, it suggested a review of the transactions in the cuff records and those in the Navy's official records. We agree, and recommended in our report, that the Navy should undertake an investigation to accurately establish the balances in the 29 appropriations discussed in our report. As explained in our report, this sort of investigation could result in identifying (1) other disbursements recorded incorrectly against the appropriation, (2) obligations that are no longer valid and can be deobligated, or (3) other accounting errors that would, when corrected, reduce recorded obligations, leaving funds available to permit recording of these disbursement transactions without incurring an overobligation. As we recommended, the Navy should report any overobligations found as a result of such an investigation to the Congress and the President pursuant to the Antideficiency Act and implementing guidance in OMB Circular A-34.

7. We disagree with DOD's position that it has implemented procedures intended to ensure adequate funds controls and compliance with the Antideficiency Act. Current policies and procedures permit the Navy to delay for about 5 years (1) the recording of obligations needed to support payments already made, (2) avoid the initiation of Antideficiency Act investigations of any potential violations, and (3) any resulting reports of violations to the Congress and the President. During this time, the Navy's appropriation balances are unreliable, leaving DOD and the Congress without assurance that the Navy has not incurred obligations in excess of available budget authority. Based on the findings in our report, we have recommended that DOD revise its problem disbursement policies and procedures to ensure that the Navy's funds control system maintains, on an ongoing and current basis, accurate and reliable unobligated and unexpended balances in expired and canceled accounts.

8. See comments 5 and 6.

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# Major Contributors to This Report

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Thomas Armstrong, Assistant General Counsel  
Andrea Levine, Senior Attorney

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**Appendix IV**  
**Major Contributors to This Report**

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# Related GAO Products

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Department of Defense: Financial Audits Highlight Continuing Challenges to Correct Serious Financial Management Problems (GAO/T-AIMD/NSIAD-98-158, April 16, 1998).

Correspondence to the Honorable Charles E. Grassley, United States Senate, on "Fast Pay" Provision of DOD Reform Act (B-279620, March 31, 1998).

CFO Act Financial Audits: Programmatic and Budgetary Implications of Navy Financial Data Deficiencies (GAO/AIMD-98-56, March 16, 1998).

DOD Procurement: Funds Returned by Defense Contractors (GAO/NSIAD-98-46R, October 28, 1997).

Financial Management: DOD Progress Payment Distribution Procedures (GAO/AIMD-97-167R, July 21, 1997).

DOD High-Risk Areas: Eliminating Underlying Causes Will Avoid Billions of Dollars in Waste (GAO/T-NSIAD/AIMD-97-143, May 1, 1997).

Financial Management: The Prompt Payment Act and DOD Problem Disbursements (GAO/AIMD-97-71, May 23, 1997).

Financial Management: Improved Reporting Needed for DOD Problem Disbursements (GAO/AIMD-97-59, May 1, 1997).

Contract Management: Fixing DOD's Payment Problems Is Imperative (GAO/NSIAD-97-37, April 10, 1997).

DOD Problem Disbursements: Contract Modifications Not Properly Recorded in Payment System (GAO/AIMD-97-69R, April 3, 1997).

Financial Management: Improved Management Needed for DOD Disbursement Process Reforms (GAO/AIMD-97-45, March 31, 1997).

DOD Problem Disbursement Reporting Excludes In-Transits (GAO/AIMD-97-36R, February 20, 1997).

High-Risk Series: Defense Financial Management (GAO/HR-97-3, February 1997).



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CFO Act Financial Audits: Increased Attention Must Be Given to Preparing Navy's Financial Reports (GAO/AIMD-96-7, March 27, 1996).

Financial Management: Challenges Facing DOD in Meeting the Goals of the Chief Financial Officers Act (GAO/T-AIMD-96-1, November 14, 1995).

Financial Management: Status of Defense Efforts to Correct Disbursement Problems (GAO/AIMD-95-7, October 5, 1994).

Financial Management: Financial Control and System Weaknesses Continue to Waste DOD Resources and Undermine Operations (GAO/T-AIMD/NSIAD-94-154, April 12, 1994).

DOD Procurement: Millions in Overpayments Returned by DOD Contractors (GAO/NSIAD-94-106, March 14, 1994).

Financial Management: DOD Has Not Responded Effectively to Serious, Long-standing Problems (GAO/T-AIMD-93-1, July 1, 1993).

Financial Management: Navy Records Contain Billions of Dollars in Unmatched Disbursements (GAO/AFMD-93-21, June 9, 1993).

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